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FM AMEMBASSY BRATISLAVA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0545
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEHKV/AMEMBASSY KYIV PRIORITY 0003
RUEHMO/AMEMBASSY MOSCOW PRIORITY 0617
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEATR/DEPT OF TREASURY WASHDC PRIORITY
RHEBAA/DEPT OF ENERGY WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 BRATISLAVA 000972

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E.O. 12958: DECL: 12/17/2016
TAGS: [ENRG](#) [ECON](#) [EPET](#) [PREL](#) [PGOV](#) [LO](#) [RS](#)
SUBJECT: RUSSIANS WAITING FOR CLOCK TO RUN OUT ON
TRANSPETROL

REF: A. BRATISLAVA 927

[1](#)B. BRATISLAVA 917

[1](#)C. VILNIUS 1111

Classified By: Ambassador Rodolphe M. Vallee for reasons 1.4 b) and d)

[1](#)1. (C) Summary - The Slovak government has made little progress towards its stated objectives of regaining control of the Transpetrol pipeline since the November 20 shareholders meeting. Economy ministry representatives have not communicated with either the Yukos Finance officials or the Moscow interlocutors on how to move forward with the agreement that was reportedly reached with Russian President Putin in early November. By arguing that the loss of Slovak veto authority over any deal in April would not change the GOS negotiating position, Economy State Secretary Peter Ziga essentially acknowledged that the Russians are pursuing a strategy to run out the clock and that there is little the government can or will do to stop it. The GOS was surprised when one of the two newly appointed Transpetrol board members, Vladimir Balanik, resigned. Jahnatek has made a deal with the other Transpetrol board members to put off another extraordinary shareholders meeting to replace Balanik due to concerns that Yukos Finance representatives would use the meeting to change their own board members. With renewed cooperation with the remaining board members, the GOS would like to begin moving forward with plans to connect Transpetrol with the Schwechat refinery in Austria. End summary.

WAIT AND SEE

[1](#)2. (C) Ambassador met December 13 with Economy State Secretary Peter Ziga to get an update on developments in the

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Transpetrol negotiations since the November 20 shareholders meeting. Ziga told us that the MOE had not been in touch with either Yukos Finance (YF) representatives or Russian government officials on how to move forward with the agreement reached in Moscow in early November whereby the GOS would allow a sale to Gazpromneft in exchange for management control and a commitment by the Russians to further develop the pipeline. This contradicts Ziga's statements immediately after the shareholders meeting when he asserted that Minister Jahnatek had already sent a message to Moscow complaining that Yukos Finance director Sergei Shmelkov was not abiding by the agreement reached by the Presidents of the two countries. (Note: Transpetrol board member Jan Kridla, who was appointed by the current Yukos International (old Yukos Finance) directors, suggested that the deal reached in Moscow

in early November may no longer be valid since one of the key negotiators at the time, Gazpromneft CEO Aleksandr Ryazanov, was dismissed on November 16. This would also explain why Shmelkov felt he did not need to abide by the agreement in negotiations with Minister Jahnatek in advance of the November 20 shareholders meeting. End Note.)

13. (C) Ziga does not expect to hear from Yukos Finance until late February when YF Director Sergei Shmelkov receives a valuation of YF's assets, which primarily consists of the 49 percent Transpetrol stake now that the deal for Lithuania's Mazeikiu Nafta oil refinery has been completed (Reftel C). Ziga mentioned that he expected to resume negotiations with Shmelkov at this time, though he did not sound as if he truly believed this to be the case. He also noted that he was not aware of any plans by Jahnatek, who has the lead in the negotiations, to re-engage with his Moscow interlocutors.

14. (C) By failing to push for further talks with either the Kremlin or YF, the GOS has essentially accepted that the Russians will run out the clock on Slovakia's veto authority, which expires on April 27. Ziga explained that the deadline does not mean all that much in the long-run since the Slovak position remains the same under either of the two most-likely scenarios: (1) The GOS would not be able to veto the sale of Yukos Finance (the whole subsidiary, not just the Transpetrol stake) either before or after the April deadline; and (2) the GOS could block the appointment of new board members if YF sold the Transpetrol stake without Slovak consent.

OTHER OPTIONS?

15. (C) In a separate meeting with Prime Minister Fico, Ambassador asked if the different positions taken by Shmelkov

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and the GOR officials that Jahnatek met with suggested that Russia was playing games with Slovakia. Fico was surprisingly uniformed of recent Transpetrol activities, saying he would soon ask for a Jahnatek briefing. He relayed a conversation he had with Putin in a pullaside back in October, where, after Fico had received many "emissaries" representing Putin, he asked Putin about Transpetrol. Putin's response, Fico noted in Russian, was "What is that?" Fico still believes a buyback is the best option, because it would "make you Americans, us, the Czechs and the Poles all happy." He just isn't sure how to get there legally.

16. (C) Ziga acknowledged that other parties beyond the GOS and the Russians remained interested in purchasing the Transpetrol stake, noting that Ukrtransnafta in Ukraine was the most recent group to express interest. Ambassador raised the possibility of an approach by a third party - most likely from Poland or the Czech Republic - to purchase the Transpetrol stake from YI based on YI's beneficial ownership and a power-of-attorney. Ziga expressed his doubts that YI could complete a deal and, undercutting his lack of concern for the April 27 deadline, questioned whether YI could complete such a deal before April. He cited YI's inability to stop Rebgun and regain control of YF through the Dutch courts as evidence that YI was not up to the task. While continuing to express his legal skepticism, Ziga nevertheless did not rule out the GOS approving a transaction between YI and a third party if it met all of the government's conditions. Ironically, the April 27 expiration also gives opportunities to interested non-Russian parties to test the legal waters.

17. (C) Ziga pointed out that Shmelkov had brought a new power-of-attorney (POA) to the Nov. 20 shareholders meeting, which Shmelkov claimed superseded all previous POAs, including the irrevocable POA that YI claims gives them the right to complete the transfer of legal ownership of the Transpetrol shares from YF to YI. YI's Jan Kridla

acknowledged that Shmelkov was "waiving around" such at POA at the shareholders meeting, but noted that it was drawn up by a Russian lawyer who lacks an understanding of Dutch and Slovak law.

EASY COME, EASY GO

18. (C) On December 4, only two weeks after he had been appointed as one of the two new Transpetrol board members, Vladimir Balanik resigned his position citing "family reasons." According to media speculation the decision may have more to do with questionable deals at Plastika Nitra, where he previously served with Minister Jahnatek. Ziga told us that normally the GOS would have to call for an extraordinary shareholders meeting within 30 days to appoint a replacement for Balanik. Due to concerns that Shmelkov would use such a meeting as an opportunity to replace the Yukos members on the board, as had been attempted at the November 20 meeting, Ziga said that the GOS would instead take advantage of ambiguous wording in the Articles of Association and put off naming a replacement until the annual shareholders meeting in April, 2007. This was a further indication that ministry officials do not trust Shmelkov and have thus settled on a wait and see approach to the future of the pipeline.

NO REASON TO DELAY EVERYTHING

19. (C) The GOS would like to move forward with plans to develop the pipeline. Since three of the four remaining Transpetrol board members, and a majority of supervisory board members, are willing to cooperate with the GOS, Ziga believes that Transpetrol could make some progress over the intervening months before the fate of the 49 percent stake is decided. Jahnatek and Ziga traveled to Kyiv December 12 and 13th for meetings with their Ukrainian counterparts. Among the issues discussed was the potential for Caspian oil being delivered through Druzhbha and Transpetrol. Ziga characterized the discussion as more focused on the broader challenges to bringing any Odessa/Brady project to fruition rather than specific proposals.

110. (C) Ziga was more hopeful that the GOS could make progress on the project to connect Transpetrol to OMV's Schwechat refinery in Austria. He noted that in addition to OMV's strong support the Austrian government was committed to

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completing the project before its permits expire. Ziga was confident that the GOS could overcome the political hurdles that had previously stalled the project on the Slovak side, in particular the opposition by the Ptzalka mayor. The new mayor, according to Ziga, is willing to reconsider the proposal. Jan Kridla was much more coy about the prospects for moving forward with the Schwechat connection, indicating that the board has recently discussed the issue with Minister Jahnatek and OMV, but unwilling to comment on the likelihood of making progress in the next few months.

COMMENT

111. (C) It is difficult to explain the GOS' passive wait-and-see approach to the sale of the Transpetrol stake considering that just last month Ziga had said that Jahnatek was disturbed by the mixed signals that he was receiving from Moscow and YF. The best guess is that Jahnatek feels that he has run out of options. He genuinely fears Russian retaliation if the GOS approved any other deal, yet is not willing to yield on his conditions for the development of the pipeline. Given the recent uproar over his nominations to the Transpetrol boards (reftel A), Jahnatek may have decided the best course is to remain quiet until he is forced to take action. We have certainly heard other theories, including

speculation that Jahnatek was told in Moscow that YF would never meet his four conditions, but that the GOR would promise to support other investments in Slovakia in the future.

¶12. (C) While progress on the future of the 49 percent stake is on hold, it is encouraging that the GOS is working with the Transpetrol board and at least considering taking action on their own. Improving the pipeline is in the interest of both the Slovaks and YI, so there is no reason either should continue to wait for a final resolution in the sale of the Yukos stake. End Comment.

VALLEE